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OO RUEHDT RUEHPB  
DE RUEHHM #0011/01 0071036  
ZNR UUUUU ZZH ZDK  
O P 071036Z JAN 09  
FM AMCONSUL HO CHI MINH CITY  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 5277  
INFO RUEHHI/AMEMBASSY HANOI PRIORITY 3507  
RUEHHM/AMCONSUL HO CHI MINH CITY PRIORITY 5507  
RUCNARF/ASEAN REGIONAL FORUM COLLECTIVE  
RUCPDOG/USDOC WASHDC PRIORITY 0106  
RUEATRS/DEPT OF TREASURY WASHINGTON DC  
RUEHRC/DEPT OF AGRICULTURE USD FAS WASHINGTON DC

UNCLAS SECTION 01 OF 02 HO CHI MINH CITY 000011

SENSITIVE  
SIPDIS

STATE FOR EAP/MLS, USAID/ANE, EEB/TPP/BTA/ANA  
USDOC FOR 4431/MAC/AP/OPB/VLC/HPPHO  
USTR FOR BISBEE  
TREASURY FOR CHUN

E.O. 12958: N/A  
TAGS: [ECON](#) [ELAB](#) [ETRD](#) [SOCI](#) [PGOV](#) [VM](#)  
SUBJECT: FALLING U.S. CONSUMER DEMAND PROMPTS FACTORY  
CLOSINGS IN THE SOUTH

REF: A) HCMC 972 "EXPORTS WILL GROW, BUT MORE SLOWLY" (10/28);  
B) HANOI 1316 "VN SHIFTS FOCUS TO MAINTAINING GROWTH" (12/02);  
C) HANOI 1391 "FURTHER EFFECTS OF THE U.S. FINANCIAL CRISIS" (12/22)

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¶1. (SBU) Summary: Over 100 garment factories in southern Vietnam have closed in recent months, leaving an estimated 60,000 workers jobless. The garment industry will be just a drop in the bucket, according to the Taiwan Business Association, which believes 800 to 1,000 companies are unlikely to reopen after the Tet New Year holiday (January 26-29), putting up to half a million laborers out of work. This could increase the possibility of social unrest, even in unlikely areas such as the Mekong Delta and central coast provinces, because they are the source of much of Vietnam's migrant labor. Many newspapers have quoted Prime Minister Nguyen Tan Dung's December 22 public warning to Vietnam's public security services to be vigilant in preventing demonstrations in the coming year. End summary.

#### Exporting Companies Going out of Business

¶2. (SBU) Taiwan and Korea are two of the leading sources of investment in low-value light industrial manufacturing for export in Vietnam. According to the Ministry of Planning and Investment, Taiwanese FDI from 1988 to December 2008 totals 1,940 projects worth \$19.6 billion while Korean FDI accounts for 2,058 projects valued at \$16.5 billion. Taiwanese and Korean business associations report that a sharp downturn in demand for Vietnamese exports is beginning to put their companies out of business (reftel A). The Korean Consulate in HCMC confirms this trend, adding that foundering Korean companies are being pushed under by a sharp drop in orders from U.S. buyers, down anywhere from 20 to 50 percent. The Taiwan Business Association in Ho Chi Minh City (HCMC) estimates that 800 to 1,000 factories are in danger of bankruptcy in the month leading up to the Tet (Lunar New Year) holiday. Vietnamese newspapers have widely quoted Nguyen Dai Dong, Head of the Employment Department of the Ministry of Labor, War Invalids and Social Affairs (MOLISA) as forecasting that some 300,000 laborers (0.65 percent of Vietnam's current work force) will lose their jobs next year if Vietnam's GDP growth rate falls to 6.5 percent in 2009 (reftel B). The IMF expects GDP growth will be closer to 5 percent (reftel C).

#### Garment and Footwear Exporters Lead the Way

13. (SBU) Vietnam's garment and footwear industries are dependent on export markets, especially the U.S. market, for their survival. According to Mr. Diep Thanh Kiet, Vice Chairman of the HCMC Textile, Apparel and Embroidery Association, there are 2,000 garment enterprises in Vietnam employing nearly two million workers and 500 footwear companies employing 600,000 workers. 70 percent of these enterprises are in Vietnam's southern provinces, including HCMC. Nguyen Duc Hoan, Chairman of the HCMC Garment, Textile, Embroidery and Knitting Association estimated that a 20 percent drop in orders would leave 400,000 Vietnamese garment workers unemployed.

14. (SBU) Roughly 70 garment and apparel export factories, including approximately 20 Korean and 40-50 Taiwanese, have closed in recent months, leaving approximately 60,000 workers jobless, according to the Vietnam Textile and Apparel Association (VITAS). HCMC Department of Labor, War Invalids and Social Affairs (DoLISA) data support the VITAS estimates. DoLISA says 21 garment, textile and footwear companies in HCMC alone shut their doors in 2008, resulting in the loss of 6,000 jobs. It estimates that layoffs at another 50 businesses cost the city another 4,500 jobs. Looking forward, DoLISA forecasts another 5,000 garment workers will have lost their jobs by the end of 2008. Provincial officials confirm nearby industrial provinces have seen similar closures: 10 companies cut 2,600 jobs in Dong Nai province and 26 companies cut 2,500 jobs in Binh Duong province, laying off nearly 1,000 more workers.

15. (SBU) VITAS's Head of External Affairs Pham Gia Hung says the industry outlook has deteriorated significantly in recent months (reftel A); VITAS now estimates Vietnam's textile export volume this year at \$9 billion dollars, roughly \$800 million dollars lower than the targets set by Ministry of Industry and Trade and up 1.3 billion from \$7.7 billion in 2007. Hung said the GVN should cut taxes and make low-cost financing available to the garment industry to help ease the present crunch.

#### Pressure Points Pushed to the Countryside

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16. (SBU) Migrant laborers from the Mekong Delta and the central coast fill many of the unskilled jobs in HCMC and the surrounding industrialized provinces. Provincial officials from Dong Nai and Binh Duong both estimate migrant workers account for 70 to 80 percent of their workforce. When these workers are laid off and unable to find new jobs in the city, they tend to return to their home provinces. As Tet draws near, many workers feel another economic pinch as employers cut back on traditional "Tet" bonuses to their employees because of the downturn. According to the most recent DoLISA survey of HCMC businesses, Tet bonuses (for FDI companies in export processing zones) will drop 11 percent this year to an average of \$90 dollars. Consequently, many, if not all workers, will have less pocket money than they expected when they return to their home provinces for the Lunar New Year, January 26-29, 2009. During a recent trip to the Mekong Delta, Econoff heard from locals who worried privately about what rising unemployment accompanied by a swell of disgruntled workers returning to the Can Tho region might mean for social stability.

#### Authorities Look to Head Off Trouble

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17. (SBU) According to Vietnam's media, this concern goes all the way to the top in the GVN. On December 22, Prime Minister Nguyen Tan Dung publicly called on Vietnam's public security forces to be proactive in preventing protests, riots and terrorism in 2009. Declining economic conditions have also caused the GVN to rethink the timing of various reforms, HCMC newspapers have written, especially the new personal income tax and unemployment insurance decrees taking effect as of January 1, 2009. Sources at the Ministry of Finance, however, tell the Embassy that these measures will be implemented in a timely manner.

18. (SBU) Vietnamese labor authorities are working to find new

jobs for the unemployed workers. In mid-December the Ho Chi Minh City Labor Confederation reported that they were able to find 3,500 jobs for those unemployed. HCMC DoLISA said it will increase scrutiny of social and health insurance premiums by FDI enterprises.

Comment:

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¶9. (SBU) Southern Vietnam's export sector had hoped to ride out the global economic storm (ref A) but is now facing a starkly different reality. Exporters in the southern provinces of Vietnam are seeing a significant drop in orders for exports and this is forcing most to cut payrolls and some to close altogether. Since low cost labor has been a significant component of Vietnam's competitive advantage, falling overseas orders have led directly to increased unemployment. While most export-oriented companies expect to continue to lose orders and shed jobs, a few very well-managed companies have found the turmoil to be an opportunity to lower costs, increase efficiency and build their share of Vietnam's exports as their competitors flounder.

¶10. (U) This cable was coordinated with Embassy Hanoi.  
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